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Contribution to Financial Sitrep
21 May 85

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Poland

According to Embassy reporting, rescheduling negotiations with the Paris Club on 25-26 April remain at an impasse due to Polish failure to pay all creditors the late interest charges on the 1981 rescheduling agreement. Polish negotiators had previously assured the unpaid creditors--the West Germans, Canadians, Austrians, Italians, Japanese, British, Spanish, Swedish, Dutch and French--that Warsaw would settle the outstanding interest which had been due prior to the March meeting. The Poles emphasized, however, that they were unwilling to sign the 1982-84 agreement until they had assurances of new financing. Meanwhile, Paris Club chairman Trichet urged creditors to reach agreement on the terms for rescheduling 1985 maturities. This could be initialled when the Poles signed the 1982-84 agreement and paid the remaining 50 percent of 1981 arrears. The 1985 agreement, however, should not be finalized until the Poles signed all bilateral agreements pertaining to the 1982-84 accord. [redacted] 25X1

Most Western governments are unwilling to consider granting credits to Poland until after Warsaw signs the 1982-84 and 1985 rescheduling agreements, according to a survey of finance ministries by various US embassies. If the accords are signed, France plans to grant $10 million in short term credits and will consider granting somewhat less than $10 million to finance 25X1

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exports of capital goods; West Germany will grant $30 million in new credits, and Switzerland $20 million in export credit guarantees. Other countries, such as Norway, Sweden, Denmark, Italy, Spain, and the Netherlands will make decisions on Polish requests when the agreements are signed. The Japanese and Canadian governments, however, told US officials that they had no intention of extending new credits at this time. [redacted] 25X1

25X1 [redacted] Polish officials severely criticized Polish negotiator Karcz over his failure to obtain credits from Paris Club members and attacked the Polish application to join the IMF. [redacted] 25X1 [redacted] 25X1 if no new credits are forthcoming, Poland is unlikely to sign the 1982-84 rescheduling agreement. If that happened, Karcz would be replaced and the Polish government would use this excuse to string out negotiations. Polish leader Jaruzelski still supports the Polish application for readmission to the IMF, but some Polish officials are concerned about possible Soviet opposition to membership. [redacted] 25X1

25X1 [redacted] the Polish government has no idea how or when the debt might be repaid. Warsaw will try to postpone debt repayments at least 15-20 years, and at the same time, lobby for several billion dollars worth of credits. One top-level Polish official claimed that even at the beginning of the next century Poland would be incapable of repaying its large debt. [redacted]

Poland's hard currency surplus during the first four months

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of 1985 was about $150 million below the same period last year. Exports fell 6.5 percent while imports increased 7.4 percent, resulting in a surplus of $245 million. The fuel and energy, construction, machinery, and paper sectors failed to meet export targets with the West during the first four months of the year, and annual goals will most likely fail to be met. [redacted]

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Hungary

Hungary is continuing to have success in raising money on Western credit markets to help cover its estimated 1985 debt service payments of $2.6 billion. [redacted] by the end of April, Budapest had already lined up at least $680 million in loans from US, Canadian, West European, and Japanese banks. Budapest is also completing negotiations for a $656 million World Bank cofinancing package to be used for modernization of the Hungarian petrochemical and food processing industries. Signing of the loan is tentatively scheduled for 12 June. The new loans carry relatively favorable interest rates and maturities of at least six years. Budapest's strategy, according to a senior Hungarian economics official, is to lengthen the maturity structure of its commercial debt by using the new loans to repay existing shorter term debt. [redacted] 25X1

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Yugoslavia

The Yugoslavs are off to a poor start in fulfilling their hard currency trade plans for this year. Growth of industrial production slumped sharply in the first months of the year, largely as a result of exceptionally severe winter weather, and external payments performance deteriorated. Imports rose 5 percent as a result of increased oil purchases, while exports declined. By March, Belgrade has reduced its foreign exchange reserves by more than the increase built up in 1984, prompting the Governor of the National Bank on 14 May to warn Parliament of dire consequences for the economy--and unspecified government measures--if present trends are not reversed. 25X1

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Already high inflation soared to an annual rate of more than 80 percent in April, prompting the government on 14 May to roll back prices and reimpose price controls on some goods and to restrict credit to some enterprises until they lower prices. The government balmed "opportunistic monopolists" for raising prices unjustifiably and claimed its decision was necessary to halt the rapid decline in living standards. Although the price controls apparently do not violate the new IMF standby program, they backtrack on Belgrade's commitment to price liberalization. Price controls on most industrial goods were lifted only last September in compliance with last year's Fund program. Yugoslavia's Western creditors are likely to take a hard view of its reversion to treating the symptoms rather than the causes of deep-seated economic problems, which may undercut Belgrade's campaign to ease oversight by the Fund in future reschedulings.

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